

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	3 February 2012
Decision Maker:	County Council
Date:	23 February 2012
Title:	Capital programme 2012/13 to 2014/15
Reference:	3587
Report From:	County Treasurer

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1. Executive Summary

- 1.1. This report sets out for approval the proposed capital programme for 2012/13 to 2014/15 of £344 million, plus the additional proposals of £124 million excluding developers' contributions of around £120 million. This provides a capital investment programme over the period totalling just under £600 million.
- 1.2. The medium term financial strategy recognised that one of the consequences of achieving the goal of four years cost reduction over two years, if successful, would be the early capture of efficiencies which would be available for one-off capital investment. £20.6 million of the additional investment is as a result of one-off resources which can now be released from the 2011/12 contingencies, which as a result of the exceptional performance in delivering the transformation programme, have not been required. A further £5.7 million one-off underspend in 2011/12 related to treasury management, investment of £8.4 million from 2012/13 one off resources and £13.2 million related to the Council Tax freeze grant are also providing additional investment.
- 1.3. The additional proposals are also reliant upon the release of £5.3 million from reserves related to invest to save and new homes bonus. The remaining £12 million investment will be funded from prudential borrowing, repaid from a proportion of 'housekeeping' efficiency savings.
- 1.4. Therefore the additional proposals are presented in line with the County Council's overall medium term financial strategy which is focussed upon two particular aspects to support increased capital investment:

- utilising one-off resources resulting from the early delivery of efficiencies
 - utilising additional efficiency savings which are recurring to repay prudential borrowing.
- 1.5. The report collates the service capital programmes prepared by Executive Members based on the guidelines for the locally resourced programme agreed by Cabinet on 19 December 2011, together with schemes funded by Government grants and other external sources. It also includes proposals from the Leader for significant additions to the capital programme for approval and recommendation to County Council. These proposals bring together the additional capital investment required for all services over the period covered by this capital programme.
- 1.6. The report shows that the projected payments arising from the capital programme, including the proposed additions, can be financed within resources available to the County Council, including the use of additional prudential borrowing.
- 1.7. The proposals take account of the County Council's capital strategy and the Prudential Code for Capital Finance in Local Authorities including the capital financing position, the level of debt outstanding and the consequences for the revenue budget and council tax. The prudential indicators are included in Appendix 12 of the report on this Agenda on the Revenue Budget.
- 1.8. The detailed capital programmes prepared by Executive Members are included in Appendix 3. The Leader's additional proposals have been included in Appendix 4 at this stage.
- 1.9. The Children's Services capital programme will be considered in more detail by the Executive Lead Member for Children's Services on 23 March 2012, taking into account the additional funding for that programme proposed by the Leader which is a maximum envelope of £27.9 million subject to individual business case approvals. Care will need to be taken in approving such business cases regarding the certainty of developers' contributions and the risks attaching thereto. The Children's Services programme included in this report, including Appendix 3, is at a summary level of detail, based on the locally resourced guideline plus the capital grants announced for 2012/13 by the Secretary of State on 13 December 2011.
- 1.10. The main points of this report are:
- the capital programmes proposed by Executive Members are in line with the guidelines set by Cabinet in December 2011
 - the additional proposals by the Leader add schemes totalling £124 million, excluding funding that may be obtained from developers' contributions (around £120 million). These proposals will require an increase in the level of prudential borrowing, repayable to a large extent from various income streams

- if the additional proposals are approved, the County Council's loans outstanding for prudential borrowing will rise to £231 million by 2017/18. The repayment of the 'bridging loans' included in this total will depend on the continued recovery of the property market. The current assumptions are that the bridging loans will be fully repaid by 2014/15
- the prudential borrowing agreed to date and now proposed is in accordance with the framework for the use of prudential borrowing under the Prudential Code for Capital Finance
- the total value of the proposed capital programme over the three-year period from 2012/13 to 2014/15 is £344 million, plus the additional proposals of £124 million excluding developers' contributions of around £120 million
- the capital receipts assumed for this report are primarily for the sale of sites already earmarked to rationalisation schemes or to fund previously approved prudential borrowing.

2. Background

- 2.1. At its meeting on 19 December 2011, Cabinet set guidelines for the new capital programme for 2012/13 to 2014/15 at the same reduced level as the current capital programme. This reflected the continued uncertainty about the level of capital receipts likely to be available to finance the locally resourced capital programme.
- 2.2. Executive members have now prepared proposals for:
 - a locally resourced capital programme for the three-year period from 2012/13 to 2014/15 within these guidelines and other resources available to services
 - a programme of schemes supported by Government capital grants.
- 2.3. In general, the programmes proposed by Executive Members are similar to those in the current capital programme, in terms of priorities and policies. As mentioned earlier, the Children's Services programme included in Appendix 3 is at a summary level, pending further consideration by the Executive Lead Member in March 2012.

3. Proposals for additions to the capital programme

- 3.1. There has been a slowdown in capital investment within the County Council in recent years, mainly as a result of reducing levels of capital support from the Government. In addition, the recession has restricted the level of funding previously received from capital receipts and developers' contributions.
- 3.2. The level of capital guidelines set for services was reduced in 2009/10 and, to date, the County Council has not made extensive use of its prudential borrowing powers.

- 3.3. The Medium Term Financial Strategy agreed by Cabinet in July 2011 identified key themes for the County Council's future capital investment. Services were subsequently asked during Autumn 2011 to identify proposals for additional capital investment, in line with these themes. Having considered the proposals for services, the Leader recommends that a wide range of schemes totalling £124 million, excluding contributions from developers of circa £120 million towards schemes to provide additional school places, should be added to the capital programme for the period from 2012/13 onwards.
- 3.4. The proposals are summarised in the following table and in more detail in Appendix 4, which also includes explanatory notes on the projects.

Table 1 – Additional capital proposals 2012/13 to 2015/16

Theme and project	Service	Total cost £000
Asset management		
Non-schools estate – planned repair and maintenance	P&R	5,000
Flood and coastal defence	Env	1,500
Children's Services		
School Places Planning (net shortfall of resources)	Children's	27,948
Provision for asset repair, upgrade and replacement	Children's	8,000
Special educational needs	Children's	100
Economic development		
Strategic sites and premises - starter units / workshops	Env	100
Energy		
Energy strategy – feasibility	P&R	250
Information technology		
IT modernisation / efficiency	P&R	2,000
Children's Services social care IT system - feasibility	P&R	100
Rural broadband	P&R	20,000
Schools managed IT service	P&R	8,000
HPSN growth	P&R	100
Strategic land development		
Strategic land - promotion, development and disposal	P&R	3,000
Reinstatement of provision for feasibility costs	P&R	860
Strategic project investment		
Extra care housing	Adults	45,000
Queen's Diamond Jubilee	P&R	250

Table 1 – Additional capital proposals 2012/13 to 2015/16

Theme and project	Service	Total cost £000
Strategic transport infrastructure		
Bus Rapid Transit phases 1B and 3 - feasibility	Env	100
Transport major project design and bidding for funding	Env	2,000

Total		124,308

- 3.5. The addition of £27.948 million shown in Table 1 for School Places Planning represents the net funding gap presented by Children's Services regarding a programme totalling £299 million over the period from 2011/12 to 2015/16 to provide new school places to meet rising pupil numbers from an increase in the birth rate and housing developments. The net shortfall has been calculated by taking into account projections of Government grant support and contributions that might be available from housing developers. There is considerable uncertainty about both sources of funding, and particularly developers' contributions following the introduction of the Community Infrastructure Levy. The £27.948 million is therefore a 'maximum envelope' of funding available to support this priority and funding release will be subject to decisions by the Executive Lead Member for Children's Services based on individual business cases. Sensitivity analysis has been undertaken regarding the risks related to developers' contributions and care will need to be taken in approving such business cases regarding the certainty of developers' contributions and the risks attaching thereto.
- 3.6. The provision for rural broadband of £20 million in Table 1 is the net position based on a 90% coverage model for Hampshire. A more detailed business case is being developed to progress this and to secure the available funding from Broadband Delivery UK (BDUK). Funding for the estimated cost of £20 million will include £5 million from BDUK, £3.7 million from the County Council and £1.3 million from contributions by the Hampshire district councils. The balance of £10 million will be funded from prudential borrowing, to be repaid from some form of commercial income stream. The procurement process will, however, ask potential providers to put forward other funding options for the £10 million which could result in the County Council's liability being limited to the £3.7 million of match funding.
- 3.7. On extra care housing, Cabinet approved in October 2011 a maximum financial envelope for the strategy of £45 million, to be released as detailed business cases are brought forward and approved. Funding of £3 million has been allocated from the invest to save reserve for the phase 1

consolidation element of the project. The proposals now recommended by the Leader include a revenue contribution of £10.2 million which, together with the £3 million, is equivalent to the one-off council tax freeze grant for 2012/13 of £13.2 million. The remaining cost of the extra care housing project will be met from prudential borrowing, to be repaid from future savings in revenue costs as a result of the investment. This has the effect of reducing the amount of borrowing costs by circa £0.8 million per annum compared with the business case presented to Cabinet.

- 3.8. The following resources have been identified to fund these proposals. Prudential borrowing will be used for the three main 'self funding' schemes, extra care housing, rural broadband and the schools managed IT service, with the repayments being met from revenue income streams or savings.
- 3.9. For the additional proposals as a whole, a remaining balance of £12 million after taken into account all the identified funding sources, will be met by prudential borrowing with the loan charges of £1.5 million per annum financed from identified housekeeping savings of £2 million in the revenue budget.

Table 2 – Funding for additional capital proposals 2012/13 to 2015/16

	£000
Revenue contributions	
- from 2011/12	26,293
- from council tax freeze grant 2012/13	13,200
- from one-off resources available in 2012/13	8,439
Invest to save reserve	1,879
New Homes Bonus 2011/12 and 2012/13	3,401
Prudential borrowing for self funding schemes	
- Extra care housing, repayable from revenue savings	34,800
- Rural broadband, repayable from income stream	16,270
- Schools managed IT service	8,000
Prudential borrowing for the remaining increase in investment	12,026

Total funding	124,308

4. Expenditure and resources cashflow - summary

- 4.1. Table 3 shows the annual capital expenditure flows from the proposed capital programme, including the recommended additions, compared with the financing resources available.

Table 3 – Capital expenditure and resources

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Expenditure	155,039	188,397	201,610	159,789
Resources	181,212	202,619	168,961	151,923
Surplus (-) / Shortfall (+)	-26,173	-14,222	32,649	7,866
Planned use of capital reserve	-120	-	-32,649	-7,866
Resources transferred to the capital reserve	-26,293	-14,222	-	-
Capital reserve balance at the end of the year	-26,293	-40,515	-7,866	-
	2015/16 £000	2016/17 £000		
Expenditure	84,613	40,811		
Resources	84,613	40,811		
Shortfall (+) / Surplus (-)	-	-		
Capital reserve balance at the end of the year	-	-		

- 4.2. The forecast capital expenditure (ie, payments) in each year are fully matched by available capital resources, demonstrating that the stable financing position for the capital programme has been maintained. The capital reserve will be used to hold the revenue contributions shown in Table 2 until they are required to fund capital payments, as shown in Table 3.
- 4.3. The forecasts are likely to change as schemes within the programme progress and the position will be reassessed at the next review of the capital programme.
- 4.4. Progress during 2012/13 on all capital payments and resources will be closely monitored and reported to the Leader and Cabinet during the year. Executive members will also review progress on their capital programmes at regular intervals during the year.

- 4.5. Appendix 2 includes details of the longer term implications of the proposed programmes for the revenue budget from increased running costs and capital charges.

5. Prudential borrowing

- 5.1. Prudential borrowing agreed to date and now proposed is in accordance with the framework for the use of prudential borrowing under the Prudential Code for Capital Finance.
- 5.2. The planned prudential borrowing will total £271 million, after deducting bridging loans repaid to 31 March 2011. Of this, £196 million will be repaid from savings in the revenue budget, including the schemes from earlier years for the Enhance nursing care homes project, waste management infrastructure and the structural maintenance of highways, together with the prudential borrowing now proposed for the additions to the capital programme from 2012/13 onwards.
- 5.3. Further details of the current level of prudential borrowing is included in Appendix 2.

6. Capital programmes proposed by Executive Members

- 6.1. The following sections of the report deal with the proposals from Executive Members for the capital programme, in line with the guideline cash limits set by Cabinet in December 2011 and allocations of capital grant announced by the Government.

7. Guideline cash limits for the capital programme

- 7.1. 'Locally resourced' schemes are those financed from the County Council's own resources such as capital receipts, contributions from the revenue budget, reserves and other funds. They do not include schemes supported by capital grant from the Government.
- 7.2. The guidelines for the locally resourced programme were confirmed by Cabinet in December 2011 at the levels previously set for the programme. They had been reduced by one-third in February 2009 in response to the lower forecasts of capital receipts likely to be available to support the capital programme. This followed the sharp decline in the demand for development land as a result of the financial crisis in 2008. That reduced level has been maintained, with no uplift for inflation, as uncertainty remains about future capital receipts. This leaves revenue contributions as the primary source of funding for the locally resourced programme.
- 7.3. The guidelines set by Cabinet for each service are shown in Table 4. Subsequent virements to or from revenue proposed by Executive members and other adjustments are shown in the table.

**Table 4 – Guidelines for locally resourced capital programmes
2012/13 to 2014/15**

	2012/13 £000	2013/14 £000	2014/15 £000
Adult Services	481	481	481
Children's Services	90	90	90
Environment	14,155	13,459	12,763
add transferred from Policy and Resources for Economic Development	+31	+31	+31
less transferred to revenue for winter maintenance	-621	-621	-621
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Environment total	13,565	12,869	12,173
Policy and Resources	7,872	7,722	7,722
less transferred to Environment for Economic Development	-31	-31	-31
less virement to revenue for Land Management	-125	-125	-125
add rephrasing of Capital Repairs from 2011/12	+400	-	-
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Policy and Resources total	8,116	7,566	7,566
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Total	22,252	21,006	20,310
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Government supported programme

- 7.4. The Government has again issued all its support for local authorities capital expenditure from 2012/13 in the form of capital grants and not as borrowing allocations.
- 7.5. Although the Government's Spending Review covered the period to 2014/15, the Government has only announced its capital grant allocations for Children's Services for 2012/13, pending the outcome of the James review which is expected in early 2012. The provisional Children's Services capital programme assumes that the Government's capital grant allocations for 2012/13 will continue at the same level in 2013/14 and 2014/15. The Government has not yet allocated the additional £600 million for 2012/13 announced in the Chancellor's Autumn Statement in November 2011. It is not expected that Hampshire will benefit significantly from this additional £600 million.

- 7.6. The Government issued indicative allocations in December 2010 for the Local Transport capital grants for 2013/14 and 2014/15. These indicative figures have been used to prepare the Environment capital programme.

8. The programmes submitted

- 8.1. The total starts value of the three-year programme submitted by Executive Members is £344 million, as shown in Table 5. It includes £280 million of schemes supported by Government grants. The table does not include the proposed additions to the capital programme.

Table 5 – Starts programmes submitted 2012/13 to 2014/15

	Land £000	Works, Fees, Furniture and Equipment			Total programme including Land £000
		Locally resourced programmes £000	Schemes supported by Government allocations £000	Total Works, Fees etc £000	
2012/13	746	22,276	119,429	141,705	142,451
2013/14	746	20,360	77,239	97,599	98,345
2014/15	746	19,664	83,193	102,857	103,603
Total	2,238	62,300	279,861	342,161	344,399

- 8.2. The proposed programmes are in line with the guidelines set in December 2011. A reconciliation between the guidelines and the proposed programme is included in Appendix 1.
- 8.3. The capital expenditure flows from these programmes and from the works currently in progress are summarised in Appendix 2, together with the resources available to finance those expenditure flows. The programmes themselves are set out in detail in Appendix 3. They do not include the proposed additions for the programme.

9. Children's Services

- 9.1. The Executive Lead Member for Children's Services will be considering a detailed capital strategy paper on 23 March 2012, which will take into account the decisions taken by Cabinet and County Council on the proposals to increase the funding for additional school places referred to earlier in this report. The capital strategy paper will deal with the pressures on the Children's Services capital programme to provide additional pupil places in primary schools over the next few years. This demand for additional places in 'hot spots' in the county arises from increasing numbers of primary aged pupils and from housing developments. Some of the cost should be met from developers' contributions but there will be a

need to fund the cost of the additional places over and above the likely level of Government grant that might be available.

- 9.2. In the meantime, the proposed capital programme included in Appendix 3 to this report reflects the resources available from Government grants announced for 2012/13 and local resources. It assumes that a similar level of resources will be available for 2013/14 and 2014/15. A full detailed programme will be reported to Cabinet and County Council following the Executive Lead Member's meeting on 23 March 2012.
- 9.3. In addition, the Executive Lead Members for Children's Services proposes that £21.414 million of resources for the Children's Services capital programme should be carried forward from 2011/12 to 2012/13. It has not been possible to start all the schemes included in the 2011/12 programme, because of changes in the scope, brief or programming of projects, or because of uncertainties about Government grant allocations and the need for new school places to meet the increase in births.

10. Environment

- 10.1. As in previous years, the Executive Member for Environment has proposed adjusting the starts programmes for each year to make sure that the resultant expenditure flows fully use the resources available from Government grants. These adjustments are summarised in Table 6.

Table 6 – Environment's proposed capital programme

	2012/13 £000	2013/14 £000	2014/15 £000	Total £000
Resources available excluding developer and other external funding	43,779	41,905	42,764	128,448
Phasing of starts programmes to match funding available	+1,093	+2,275	-1,216	+2,152
Proposed programme	44,872	44,180	41,548	130,600

- 10.2. The programme will be managed to ensure that the expenditure flows each year do not exceed the resources available.

11. Other services

- 11.1. There are no issues raised by the proposed capital programmes for Adult Services and Policy and Resources. Both programmes are based on the priorities for capital investment established in previous years.
- 11.2. Full details of the proposed programmes are included in Appendix 3.

12. Conclusions

- 12.1. Regular reports will be made during the year on the implementation of the programme, including the progress of major projects, the level of capital expenditure and resources in 2012/13 and the progress on obtaining the capital receipts necessary to finance the capital programme.
- 12.2. The proposals for significant additions to the capital programme, if approved, will provide a strong base for the County Council's capital investment in the years ahead. Further work will be required to establish the details for most of these proposals and further reports will be considered by Executive Members and, where appropriate, Cabinet in line with the normal project appraisal and approval process. The costs and timings will inevitably change as the details are refined, but will be contained within the envelopes now established if these proposals are approved.

13. Recommendations

- 13.1. The following decisions are sought, based on the recommendations of the Leader and Cabinet to the County Council, for the capital programme for 2012/13 to 2014/15 that:
 - 1 Children's Services capital resources totalling £21.414 million be carried forward from the 2011/12 capital programme to 2012/13 (paragraph 9.3)
 - 2 It be a recommendation to Council that:
 - a) the capital programme for 2012/13 and the provisional programmes for 2013/14 and 2014/15 be approved as set out in Appendix 3 of the accompanying report and subject to the conditions set out in section B.3 of the County Council's Financial Procedures on the responsibilities for managing the capital programme and, where appropriate, to the approval of the Executive Member for Policy and Resources to proposals by Executive Members to retain more than a 25% share of capital receipts
 - b) the additional proposals for capital investment in period from 2012/13 onwards set out in Appendix 4 be approved and included in the County Council's capital programme
 - c) expenditure on preliminary design and planning work for major transport schemes be permitted when they have achieved a place in the County Council's Local Transport Plan, subject to the cost being met within existing Government allocations
 - d) authority be given to incur expenditure on land purchases as follows:
 - (1) up to the sum specified in respect of sites still required for the schemes included in the capital programme for the period 2012/13 to 2014/15 provided that the relevant scheme has

been the subject of a feasibility or design project appraisal approved by the relevant Executive Member

- (2) up to the amount included in the programmes for 2012/13 to 2014/15 in respect of advance and advantageous land purchases.

13.2. Council is recommended to approve:

- a) the capital programme for 2012/13 and the provisional programmes for 2013/14 and 2014/15 as set out in Appendix 3 of the accompanying report and subject to the conditions set out in section B.3 of the County Council's Financial Procedures on the responsibilities for managing the capital programme and, where appropriate, to the approval of the Executive Member for Policy and Resources to proposals by Executive Members to retain more than a 25% share of capital receipts
- b) the additional proposals for capital investment in period from 2012/13 onwards as set out in Appendix 4, for inclusion in the County Council's capital programme
- c) expenditure on preliminary design and planning work for major transport schemes be permitted when they have achieved a place in the County Council's Local Transport Plan, subject to the cost being met within existing Government allocations
- d) that authority be given to incur expenditure on land purchases as follows:
 - (1) up to the sum specified in respect of sites still required for the schemes included in the capital programme for the period 2012/13 to 2014/15 provided that the relevant scheme has been the subject of a feasibility or design project appraisal approved by the relevant Executive Member
 - (2) up to the amount included in the programmes for 2012/13 to 2014/15 in respect of advance and advantageous land purchases.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	yes
Corporate Business plan link number (if appropriate):	
Maximising well-being:	yes
Corporate Business plan link number (if appropriate):	
Enhancing our quality of place:	yes
Corporate Business plan link number (if appropriate):	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. Equality objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific proposals.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific proposals affecting adaptation to climate change.

Capital Programmes 2012/13 to 2014/15 proposed by Executive Members

1 Summary of the proposed programmes

- 1.1 The proposed three-year programme of £344 million can be reconciled with the guidelines set by the Cabinet in December 2011, as Table 7 shows. This excludes the proposed additions to the capital programme summarised in Appendix 4.

Table 7 – Capital programme 2011/12 to 2014/15 – funding sources

	£000
Guideline for the three-year locally resourced programme	
- as agreed by Cabinet in December 2011	65,406
- subsequent adjustments including virements to/from revenue	-1,838

Adjusted locally resourced guidelines	63,568
Use of capital receipts – Children’s Services	670

Total funding from local resources	64,238
Government support	
Capital grant allocations	239,460
Resources carried forward from previous years	
Children’s Services	38,249
Phasing of starts to match resources – Environment	2,152

Total funding available from Government support	279,861

Total excluding land for programmed schemes	344,099
Land for programmed schemes	300

Total programme 2012/13 to 2014/15	344,399

- 1.2 The Environment capital programme also includes a number of local transport schemes supported wholly or in part by developers, totalling £21.2 million between 2012/13 and 2014/15. The individual schemes are identified in the Environment capital programme in Appendix 3.

Capital Expenditure Flows and Financing Resources 2011/12 to 2014/15

1 Capital expenditure flows

- 1.1 The level of capital expenditure (or 'payment') flows is one of the factors taken into account in determining the size of the capital starts programme, together with forecasts of financing resources.
- 1.2 Expenditure flows in 2011/12 and the following four years will result from works in progress (schemes started in 2011/12 and earlier years) plus those arising from the proposed programme for 2012/13 to 2014/15, as Table 8 below shows. These figures include the proposed additions to the capital programme in order to demonstrate that the additions can be fully funded.

Table 8 – Capital expenditure flows

	2011/12	2012/13	2013/14	2014/15
	£000	£000	£000	£000
Works in progress at 31 March 2011 and schemes starting in 2011/12	130,921	57,714	37,458	8,752
Programmes starting in 2012/13 2013/14 and 2014/15	-	98,252	147,406	134,246
Highways schemes funded by developers' contributions	10,753	8,592	6,462	7,575
Fees – property related	10,082	15,218	8,506	8,020
Land	3,283	8,621	1,778	1,196
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Total expenditure flows	155,039	188,397	201,610	159,789
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- 1.3 In practice, expenditure flows in the years after 2012/13 may be higher than suggested by Table 8 if further developer and other external contributions become available to fund additional capital schemes, as well as higher levels of Government support than currently assumed.

2 Resources available for capital financing

- 2.1 The sources of finance to support the capital programme are:
- Government capital grants – the Government has issued all of its support for local authorities' capital expenditure from 2011/12 onwards in the form of capital grants and not as borrowing allocations
 - Government borrowing allocations for 2010/11 and from earlier years
 - prudential borrowing – loans that the County Council may decide to raise in the knowledge that it will have to meet the principal repayment

and interest charges from its own resources without any additional support from the Government. The County Council would need to consider the impact of such loans on the revenue budget and prudential indicators

- contributions from other bodies, which can include developers, the health service, other local authorities and the national lottery
- capital receipts from the sale of land, buildings and other assets
- contributions from the revenue budget.

2.2 The following table shows the latest estimate of the resources available to finance capital expenditure.

Table 9 - Resources to fund capital expenditure

	2011/12	2012/13	2013/14	2014/15
	£000	£000	£000	£000
Borrowing				
Government allocations	10,605	6,363	24,004	-
Prudential borrowing	17,633	18,968	35,220	26,791
less repayments from capital receipts etc	-52,731	-4,472	-5,208	-2,020
Capital grants	66,321	89,511	67,776	87,940
Contributions from other bodies including developers	21,366	10,408	7,608	9,158
Capital receipts	37,185	25,470	14,693	5,757
Contributions from reserves	3,865	12,030	-	-
Revenue contributions to capital less repayment from capital receipts of loans under the School Balances Loan Scheme	60,594	47,472	24,868	24,297
	-1,269	-3,131	-	-
New resources in the year	163,569	202,619	168,961	151,923
Use of the capital reserve, added to the reserve (-), or taken from the reserve (+)	-8,530	-14,222	32,649	7,866
Total resources available	155,039	188,397	201,610	159,789

2.3 Forecasts of capital receipts have begun to increase from 2011/12 but initially this is primarily for disposals necessary to repay prudential borrowing for school and other rationalisation schemes started in advance of the capital receipts. The figure for 2011/12 includes the disposal of land at Merton Rise in Basingstoke which may not be completed until 2012/13.

3 Capital reserve

- 3.1 Resources identified in 2011/12 and 2012/13 to fund the proposed additions to the capital programme but which will not be required to fund capital payments in 2012/13 will be added to the capital reserve until they are needed in 2013/14 and 2014/15, as shown in Table 10.

Table 10 – Capital reserve

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Opening balance	120	26,293	40,515	7,866	-
Used in year	-120	-	-32,649	-7,866	-
Added in year	26,293	14,222	-	-	-
Closing balance	26,293	40,515	7,866	-	-

4 Revenue implications

- 4.1 The revenue implications of the new programme are shown in the following table. This table excludes the impact of the proposed additions to the capital programme.

Table 11 – Revenue effects

	Running costs £000	Capital charges £000	Total £000
2012/13 starts	185	2,406	2,591
2013/14 starts	193	2,389	2,582
2014/15 starts	172	2,313	2,485
Total	550	7,108	7,658

- 4.2 The capital charges represent depreciation over the estimated life of the asset for most schemes. The capital charges do not affect the County Council's overall expenditure as the charges to services will be counter-balanced by a corresponding credit to the centrally managed asset account. Trading units' capital schemes also include a 3.5% return on capital employed.
- 4.3 Although the capital charges in Table 11 do not affect the County Council's overall expenditure, it will be increased by the capital financing costs on the loans raised to finance the programme. The full year revenue impact of the

additional prudential borrowing over the proposed three-year programme will be £5.7 million.

5 Debt outstanding

- 5.1 Table 12 below shows the estimated debt to be financed by the County Council including the new borrowings necessary to finance the proposed three-year programme.

Table 12 – Debt outstanding

	2011/12	2012/13	2013/14	2014/15	2015/16
	£m	£m	£m	£m	£m
Debt outstanding at the beginning of the year	616.0	565.7	562.7	590.7	590.2
New borrowings	28.2	25.3	59.2	26.8	35.1
Repayments from:					
- the revenue account	-25.8	-23.8	-24.0	-25.3	-25.6
- capital receipts and developers' contributions	-52.7	-4.5	-7.2	-2.0	-1.1
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Debt outstanding at the end of the year	565.7	562.7	590.7	590.2	598.6
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- 5.2 As the table shows, the amount of debt outstanding will increase over the period of the forthcoming programme as prudential borrowing is used to finance the proposed additions to the programme.

6 Prudential borrowing

- 6.1 In November 2003, Cabinet agreed a framework for the use of prudential borrowing under the Prudential Code for Capital Finance introduced by the Local Government Act 2003. 'Prudential borrowing' does not attract Government revenue grants towards the loan charges. Instead, the loan repayments and interest charges have to be financed by the County Council from its own resources. Because of the potential impact on the County Council's overall financial position, it is important that the use of prudential borrowing is very closely controlled and monitored.

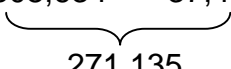
- 6.2 The framework, as updated by Cabinet in February 2006, includes:

- borrowing for which loan charges are financed by virement from the Executive member's revenue budget, including invest-to-save schemes that will generate revenue savings or additional revenue income
- 'bridging' finance that will be repaid by eventual capital receipts, capital grants or contributions, provided that the cost of interest and the statutory minimum revenue provision is met by services in the years that such costs are incurred
- capital investment by business units

- temporary borrowing to accommodate shortfalls in general capital resources.

6.3 The overall level of proposed prudential borrowing is summarised in the following table.

Table 13 – Prudential borrowing

	Borrowing £000	Repaid to date £000	Future repayments £000	Net total £000
2004/05 actuals	20,372	-	-	20,372
2005/06 actuals	14,754	-	-	14,754
2006/07 actuals	22,864	-5,716	-	17,148
2007/08 actuals	21,686	-14,939	-	6,747
2008/09 actuals	47,282	-2,450	-	44,832
2009/10 actuals	5,685	-6,543	-	-858
2010/11 actuals	22,294	-7,851	-	14,443
2011/12 estimate	17,633	-	-52,731	-35,098
2012/13 estimate	18,968	-	-4,472	14,496
2013/14 estimate	35,220	-	-5,208	30,012
2014/15 estimate	26,791	-	-2,020	24,771
2015/16 estimate	35,085	-	-1,114	33,971
2016/17 estimate	10,000	-	-	10,000
2017/18 estimate	10,000	-	-	10,000
Total	308,634	-37,499	-65,545	205,590
	 271,135			

6.4 The schemes funded by these advances are summarised in Table 14.

Table 14 – Summary of outstanding and planned prudential borrowing advances

	£000
Financed from savings in the revenue budget	195,639
'Bridging' loans on specific projects to be repaid from capital receipts and developer contributions	43,173
Trading units' capital investment to be financed from future charges	12,819
Temporary borrowing	19,504
Total	271,135

6.5 The 'bridging loans' in advance of capital receipts or developers' contributions are expected to be fully repaid by 2014/15. In addition to these lump sum repayments, £196 million of the prudential borrowing will

be repaid from savings in the revenue budget, including the Enhance nursing care homes, waste management infrastructure and structural maintenance of highways.

- 6.6 For bridging loans raised since the beginning of 2006/07, services have been required to meet the annual cost of interest and principal repayment from their revenue budgets or existing capital programmes, or by setting aside part of their shares of other capital receipts. This eliminates the strain on the County Council's annual revenue budget which would otherwise have to be met by savings elsewhere or be charged to the council tax.
- 6.7 The prudential borrowing agreed to date and now proposed is in accordance with the framework for the use of prudential borrowing under the Prudential Code for Capital Finance. The prudential indicators used as part of the process of assessing compliance are included in Appendix 12 of the report on this Agenda on the Revenue Budget.

Additional Capital Proposals - Summary

Dept	Capital Theme / Project Description	2012/13	2013/14	2014/15	Later	Total	Potential funding	Net
		£000	£000	£000	£000	£000	£000	£000
Asset Management								
CCBS	Non-schools estate planned repairs and maintenance	2,500	2,500	-	-	5,000	-	5,000
ETE	Coastal sites programme and capital match funding for EA grant-in-aid schemes and minor flood defence works	1,000	500	-	-	1,500	-	1,500
		3,500	3,000	0	0	6,500	0	6,500
Children's Services								
CS	School places planning (net shortfall of resources)	-7,258	16,314	7,807	11,085	27,948	-	27,948
CS	Provision for asset repair, upgrade and replacement	4,000	4,000	-	-	8,000	-	8,000
CS	Special educational needs	100	-	-	-	100	-	100
		-3,158	20,314	7,807	11,085	36,048	0	36,048
Economic Development								
ETE	Strategic sites and premises – starter units / workshops	100	-	-	-	100	-	100
		100	0	0	0	100	0	100

Appendix 4

Dept	Capital Theme / Project Description	2012/13	2013/14	2014/15	Later	Total	Potential funding	Net
		£000	£000	£000	£000	£000	£000	£000
Energy								
ETE	Energy strategy – feasibility funding	125	125	-	-	250	-	250
		125	125	0	0	250	0	250
Information Technology								
CCBS	Children’s Services social care system – feasibility	100	-	-	-	100	-	100
CCBS	IT modernisation / efficiency	1,000	1,000	-	-	2,000	-	2,000
CCBS	Rural broadband	1,500	9,250	9,250	-	20,000	-16,270	3,730
CCBS	Schools managed IT service	2,000	6,000	-	-	8,000	-8,000	0
CCBS	HPSN growth	50	50	-	-	100	-	100
		4,650	16,300	9,250	0	30,200	-24,270	5,930
Strategic land development								
CCBS	Strategic land response / promotion, development and disposal	1,000	2,000	-	-	3,000	-	3,000
CCBS	Reinstatement of Policy & Resources Feasibility capital programme budget	430	430	-	-	860	-	860
		1,430	2,430	0	0	3,860	0	3,860
Strategic project investment								
AS	Extra care housing (assumes contribution from revenue)	14,200	11,200	5,600	14,000	45,000	-34,800	10,200
CCBS	Queen’s Diamond Jubilee	250	-	-	-	250	-	250
		14,450	11,200	5,600	14,000	45,250	-34,800	10,450

Appendix 4

Dept	Capital Theme / Project Description	2012/13 £000	2013/14 £000	2014/15 £000	Later £000	Total £000	Potential funding £000	Net £000
Strategic transport infrastructure								
ETE	Bus Rapid Transit (BRT) Phases 1B and 3 - Feasibility	100	-	-	-	100	-	100
ETE	Transport Major Project Design and Bidding Funding	1,000	1,000	-	-	2,000	-	2,000
		1,100	1,000	0	0	2,100	0	2,100
Total		22,197	54,369	22,657	25,085	124,308	-59,070	65,238

Capital Investment Priorities – Explanatory Narrative

Asset Management

Non – Schools Estate Planned Repairs and Maintenance – Like many other local authorities, the County Council has liabilities in respect of its assets and infrastructure, although past investment and sensible management of our assets has meant that the level of back log maintenance is still within manageable boundaries compared to most other authorities. This additional funding will help to increase the balance between planned and reactive maintenance across the non-schools estate, thereby reducing potential reactive maintenance in the future.

Coastal Sites Programme and Flood Defence – The County Council has significant responsibilities both in respect of coastal sites and flood defence. This additional funding will be used to identify priority areas within the County that require immediate works and will also be used to attract matched funding and other contributions from the Environment Agency and other organisations.

Children’s Services

Children’s Services School Places Planning – School places planning is notoriously difficult to get right given the number of variables involved and the fact that there is a mixture of some surplus places and particular hotspots throughout the County. A significant amount of work has been undertaken to assess needs over the next four years and beyond and translate this into a requirement for new primary and secondary school places taking into account the need for permanent build versus temporary solutions, which obviously has a significant impact on the overall cost. Possible funding sources in the form of Government grant and in particular developers’ contributions have also been assessed based on the indicative programme, which leads to an estimated net overall shortfall of resources of £27.9 million.

It is therefore proposed to allocate funding to meet shortfall over the life of the programme, but it should be noted that there are significant risks around the assumptions made for developers’ contributions and costs which will obviously become clearer as the programme progresses and as individual schemes are developed, costed and funded. The £27.9 million is a maximum envelope and the release of funding is subject to the Executive Member approval regarding individual schemes.

Provision for Asset Repair, Upgrade and Replacement – Additional funding has been provided to increase planned repairs and maintenance on the non-schools estate. Similarly, there are many pressures within the schools estate in respect of buildings and equipment. A total of £4 million per annum for the next two years is therefore proposed to address priority spending in areas such as:

- Replacement of poor condition temporary classrooms
- Budgets for integrated community equipment

- Safety improvements in toilets, changing rooms and school kitchens
- Upgrading and repair of early years facilities
- Essential repairs and refurbishment of children's homes and study centres.

Special Educational Needs – This sum represents initial feasibility funding to look at the options for provision of SEN for pupils with Autistic Spectrum Disorder (ASD) and girls with Behavioural, Emotional and Social Difficulties (BESD). Specific provision could generate savings through the reduction of out of County placements, but further work is required to assess the value of these against the potential capital investment costs.

Economic Development

Starter Units / Workshops – This funding represents initial feasibility money to develop this programme to facilitate micro business start ups and to fill gaps in the commercial property market. Any future funding would be subject to a full business case and risk analysis given the relatively high failure rate in start up businesses.

Energy

Energy Strategy Feasibility Funding – There are many options and technologies currently on the market that can be used either to reduce the reliance on energy or to generate your own energy in a sustainable way. The Cabinet had previously decided to pursue a programme of solar photovoltaic cell installations but with the changes to the feed-in tariffs announced last year this programme has been put on hold as the financial business case no longer stacks up. The £250,000 of funding will therefore be used to look at other options for energy schemes such as energy performance contracting and district heating and to develop individual business cases prior to the production of an energy strategy for the Council.

Information Technology

Children's Services Social Care System – The amount asked for at this stage is feasibility funding to look at the options for replacement of the system. The current case management system is not fit for purpose, and in such a sensitive area this potentially exposes the County Council to risks that are not acceptable. Total costs could be in the region of £2.5 million but this is a high level estimate at this stage until further detailed work can be carried out to provide a more accurate assessment.

IT Modernisation / Efficiency – The County Council already has a heavy reliance on information technology as part of its back-office functions and in delivering specific services on the ground. This funding will be used in a variety of ways, firstly, to help replace key assets which are reaching the end of their useful

life, to provide invest-to-save funding for service modernisation and to support changes that are anticipated as part of the Corporate Services Review and the potential joint working with Hampshire Constabulary and Hampshire Fire and Rescue Service should a positive business case be approved in due course.

Rural Broadband - Funding for rural broadband has been announced for all of Hampshire based on a 90% coverage model and a more detailed business case is being developed to progress this and to secure the available funding from Broadband Delivery UK (BDUK). The net position shown in the table assumes that of the £20 million total estimated cost, £5 million will come from the BDUK funding, £3.7 million from the County Council and £1.3 million from District Council contributions. The figures in the revenue and capital reports assume that the balance of £10 million will be funded from prudential borrowing the costs of which will be recovered by some form of commercial income stream.

However, if the broadband bid is approved by BDUK, the County Council will then undertake a procurement process that will ask potential providers to put forward options for the overall delivery and funding of broadband across the County. This could mean that the County Council's only liability towards the scheme is the £3.7 million match funding highlighted above, but this is entirely dependent on the bids received and commercial model adopted going forward.

Schools Managed Service – Successful pilot schemes have already been implemented whereby the County Council purchases hardware and software on behalf of schools and they then pay an annual revenue charge for the equipment and a full range of technical support provided by the IT Department. There are already 104 schools that have expressed an interest in this service, but significant initial funding is required to meet the costs of equipment and to provide the technical support service.

The funding for 2012/13 is based on fairly firm indications from schools that they wish to take up the service in that year, the larger provision in 2013/14 is based on a wider rollout but will be dependent on the number of schools wishing to take up the service, the extent to which the service is actively marketed and whether or not the County Council wish to consider extending the services to schools outside of Hampshire. A more detailed business case and rollout plan will be produced for consideration in due course.

HPSN Growth – This funding represents feasibility funding to develop a full business case for HPSN growth in the future. This would fit within the timescales for joint working with Hampshire Constabulary and Hampshire Fire and Rescue Service and could be developed with them assuming joint working arrangements with them are approved later this year. Total costs could be up to £5 million.

Strategic Land Development

Strategic Land Promotion, Development and Disposal – Recent economic conditions have had an impact on the general programme of asset sales and the ability of the Council to maintain its past level of capital receipts. In addition to this

general programme the Council also has strategic landholdings across the county which could be suitable as major development sites in the future. The costs associated with developing these major sites can be significant and will vary depending on the complexity of the site and the level of influence the Council wishes to retain over the type of development to be pursued.

The additional funding shown in the table will be used to progress the sites, however the exact phasing and final costs are dependent on a significant number of complex interrelated variables and any decisions on the sites would be subject to County Council approval in the future in any event.

Policy and Resources Capital Programme Feasibility Budget – Although this budget specifically refers to Policy and Resources capital programme it actually represents the reinstatement of a feasibility budget mainly in respect of property services involvement in feasibility work for other major schemes across the Council. This includes transformation programme within Adult Services, assisting with school places planning, exploring opportunities for development and asset sharing with other districts and public bodies and acting as the lead authority on a national basis for the Capital Asset Pathfinder initiative.

Strategic Project Investment

Extra Care Housing – Extra care housing was approved by Cabinet, working to a maximum limit of £45 million of capital investment which will be released as detailed business cases come forward. The original model assumed that all the costs would be met by the sale of existing assets and prudential borrowing, the costs of which would be met through revenue savings in the future cost of care.

As part of the approval, £3 million of direct funding from the invest to save reserve was granted to the project for the phase 1 consolidation element of the overall scheme. The table in this Appendix assumes that a further cash flow contribution to the scheme of £10.2 million will be made as recommended by the Leader of the Council. This brings the total direct contribution to the extra care housing scheme to £13.2 million which is equivalent to the council tax freeze grant for 2012/13 which is being paid on a one-off basis and represents additional cash funding during the year which can be used to support this programme.

Queen's Diamond Jubilee – Initial funding for progressing the Jubilee Country Park has been included within the report to Executive Member for P&R decision day on 27 October 2011. It is almost certain however that the County Council will wish to progress other initiatives to commemorate this momentous occasion and it is therefore recommended that additional funding set aside for this purpose.

Strategic Transport Infrastructure

Bus Rapid Transit Phases 1(b) and 3 – This funding represents feasibility funding to explore options for realising this project which extends the existing scheme (1a) to Gosport town centre, bus station and ferry terminal and provide a link to the proposed waterfront development. Total scheme cost are estimated in

excess of £13 million and this initial funding would be used to look at options for bidding to central Government on a matched funding basis and/or finding partner contributions to assist with the overall funding of the scheme.

Transport Major Project Design and Bidding – Over the last few years general capital allocations and specific funding for major transport projects have been severely restricted by the Government. However there have been recent signs that new funding may start to become available, for example, the additional £500 million that was announced last year for infrastructure projects. The County Council wants to place itself in a very strong position to be able to respond to potential opportunities for bidding for funding and to have funds available to produce well designed, high quality projects as part of that process. This funding will therefore provide the capacity to undertake this work and provide resources for matched funding where it is sensible to do so.